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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

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21 January, 1997

Dear Mr Caton

The Merger of MCI Communications Corporation and British Telecom PLC

I enclose a submission with regard to the matter of the proposed merger of MCI and BT, on behalf of Energis Communications Limited.

1. Introduction to Energis

- 1.1 Energis, a leading player in UK business communications has built an extensive Synchronous Digital Hierarchy (SDH) network in the UK. A wholly owned member of The National Grid Group plc (NGG), Energis has built its national network throughout England and Wales, by installing 4,100km of fibre optic cable along the National Grid's electricity transmission infrastructure.
- 1.2 At September 1996, National Grid's total investment in Energis amounted to some \$800m. Energis has developed a full portfolio of value added, feature rich services, which include innovative telephony services, ATM and frame relay services for data transmission, tailored freephone packages and card services. We are currently routing over 3m calls per day on the network.

2. The UK Domestic and International Telecommunications Market

- 2.1 The process of deregulation of the telecommunications industry, began back in 1984 with the Telecommunications Act, opening up competition to a second player, Mercury Communications. Twelve years later, British Telecommunications (BT) is still the dominant player with 92% of residential lines and a similar proportion of business lines. In the business market, BT still enjoys around 90% of local call revenues, 70% national call revenues and around 93% of exchange line rentals. * Note 1
- 2.2 In the international call arena BT's share stands around 55% of business call revenues, with around a 25% share taken by Mercury. For the residential market, however, BT claims over 80% of international revenue, with Mercury only claiming a 10% share. Overall, around 66% of all outgoing international minutes from the UK are generated by BT customers. * Note 1

* Note 1: Source: Oftel Market Information Update, October 1996

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Energis Communications Limited
Registered in England & Wales
at above address on 26/04/97

- 2.3 BT has correspondent relationships with all of the significant Public Telegraph and Telecommunications companies (PTTs) in the world. Bearing in mind the majority of these PTTs are monopolies in their own markets it is difficult particularly while the current accounting rate system operates for new international facility operators to establish like correspondent relationships as the overseas party has no need of a new relationship (they can send and receive traffic via a single relationship) and view alternative correspondents as simply raising their overhead costs.
- 2.4 BT also have ownership in the majority of international cables landing in the UK and control the landing and restoration plans of those cables. This gives them an effective dominance in the backhaul market (provision of transmission capacity from cable landing station to national switching stations).

3. Impact of BT / MCI Merger

- 3.1 Energis believes the newly merged company will do nothing to enhance or encourage competition in the UK. We believe the merger is more likely to enhance the dominant position of BT in the UK, impacting not only on emerging players, currently investing heavily in infrastructure and service development, but also on the newly licensed international facilities operators in the UK (the Department of Trade and Industry (DTI) licensed 49 new international operators in December 1996).
- 3.2 Energis also believes BT / MCI will have the capability to benefit from the gap in regulation created by having substantial activities in two separate and different regulatory systems. This may provide the opportunity to exploit the difference between the policies in each regulatory area and develop pricing structures to offer bundled packages to customers offered in the US and Europe that cannot be matched by competitors largely covered by one regulator.

4. Energis Proposals For Safeguards against BT / MCI Merger Threats

4.1 Equal Access

- 4.1.1 Energis believes that in order to combat the threat of the newly merged BT / MCI operation, the UK market needs to be opened up further to competition, and that this development needs to be fast. The introduction of Equal Access, (defined as carrier choice for consumers for a full range of products and services, regardless of which carrier provides the physical access link, where there is no default choice,) has proved to be a successful method of encouraging competition and the rapid build up of competitive market shares, in a number of markets, including the US. Equal access would allow companies to achieve quickly the critical mass required to compete successfully against the new BT / MCI organisation.
- 4.1.2 Energis also believes that in order to be able to be competitive, we must offer a range of international services as an international operator.
- 4.1.3 In order to fund and establish a full-scale international operation, Energis requires significant economies of scale. It is estimated that to establish the basic switching capability and international capacity for a minimum level of international connectivity, an investment level of \$10m is required. There is also a requirement to generate a minimum number of international minutes in order to establish correspondent relationships, key in reducing costs sufficiently to cover international investment, opportunity costs etc. We have already discussed the reluctance of

monopoly PTTs in establishing correspondent relationships over and above the existing relationship with BT. It is preferable to generate such minutes from one's own network, rather than transiting minutes from the carrier market which carries the risk of being unsustainable.

4.1.4 The problem is how such a volume of minutes can be generated. The current position in the UK is the licence requirement on BT not to operate in a uncompetitive manner and to allow other operators to use on defined terms their network infrastructure. This policy, except for the limited investment in cable, has meant that the majority of the final access is still returned by BT with competition at various other levels (see 2.1 and 2.2 above). This control of the majority of the end customers in the UK combined with the ability to potentially bundle service to customers with presence in the UK and US because of common ownership provides advantages over all other UK and US operators.

4.1.5 Energis believes that the introduction of Equal Access to the UK would assist in creating the environment to allow for competing operators, who have already made investment in infrastructure, to develop economies of scales required to establish viable international packages.

4.2 Closing the Regulatory Gap

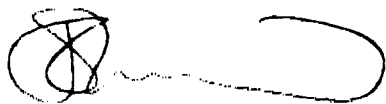
4.2.1 Energis believes there is a threat posed by the proposed merger, of additional benefit falling to BT/MCI from a gap in the regulatory control. We believe that companies regulated largely by one regulator may be at a disadvantage in creating packages able to compete with BT/MCI's ability to exploit differences in regulatory regimes in the US and the UK / Europe.

4.2.2 Energis would like to see further regulatory controls introduced to close any potential gap and to ensure anti-competitive behaviour is clearly defined between US and European regulators. We would also wish to see agreed control mechanisms to ensure and enforce fair trading.

Without these issues being addressed in any approvals granted we believe the proposed merger has the potential to distort effective competition in the UK and Europe.

If you require any further information or wish to discuss any of the issues raised, please do not hesitate to contact me on +44 171 206 5570 E-mail jupward@energis.co.uk.

Yours sincerely,



Jo Upward
Head of Regulatory Affairs, Energis